

Exhibit B

Financial Projections

**Novation Companies, Inc.**  
**Pro-forma Financial Statements**  
**(Reinstatement)**

**Income Statements**

<i>(in thousands)</i>	Period from		Year Ending December 31,															
	Jul.1-Dec. 31,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Revenue	\$	36,125	\$70,436	\$73,958	\$77,656	\$81,539	\$85,616	\$89,896	\$94,391	\$99,111	\$104,066	\$109,270	\$114,733	\$120,470	\$126,493	\$132,818	\$139,459	\$146,432
Cost of revenue		31,248	60,959	64,007	67,208	70,568	74,096	77,801	81,691	85,776	90,065	94,568	99,296	104,261	109,474	114,948	120,695	126,730
Gross profit		4,877	9,477	9,951	10,448	10,971	11,519	12,095	12,700	13,335	14,002	14,702	15,437	16,209	17,019	17,870	18,764	19,702
Operating expenses		2,829	5,783	6,024	6,277	6,543	6,821	7,112	7,417	7,738	8,073	8,426	8,795	9,182	9,588	10,013	10,460	10,928
Income from operations		2,048	3,694	3,926	4,171	4,428	4,699	4,983	5,283	5,597	5,928	6,276	6,642	7,027	7,432	7,857	8,304	8,774
Discontinued operation asset write-off		(224)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income, mortgage securities		2,739	4,708	3,822	3,206	2,790	4,322	3,456	2,769	2,218	1,785	1,444	2,219	3,319	2,729	2,225	1,787	1,043
Investment income		115	359	619	941	1,234	1,540	2,056	2,564	3,083	3,629	4,218	4,864	5,688	6,741	7,879	9,122	10,487
Interest expense		(2,219)	(4,761)	(4,941)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)	(5,156)
Income before taxes		2,459	4,000	3,426	3,161	3,296	5,406	5,339	5,460	5,743	6,186	6,782	8,569	10,879	11,746	12,805	14,057	15,148
Taxes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	\$	2,459	\$ 4,000	\$ 3,426	\$ 3,161	\$ 3,296	\$ 5,406	\$ 5,339	\$ 5,460	\$ 5,743	\$ 6,186	\$ 6,782	\$ 8,569	\$ 10,879	\$ 11,746	\$ 12,805	\$ 14,057	\$ 15,148

**Statements of Cash Flows**

<i>(in thousands)</i>	Period from		Year Ending December 31,															
	Jul.1-Dec. 31,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating activities:																		
Net income	\$	2,459	\$ 4,000	\$ 3,426	\$ 3,161	\$ 3,296	\$ 5,406	\$ 5,339	\$ 5,460	\$ 5,743	\$ 6,186	\$ 6,782	\$ 8,569	\$ 10,879	\$ 11,746	\$ 12,805	\$ 14,057	\$ 15,148
Depreciation & amortization		37	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Accounts receivable, net of allowance		(1,208)	(630)	(482)	(507)	(532)	(558)	(586)	(616)	(647)	(679)	(713)	(748)	(786)	(825)	(866)	(910)	(955)
Prepaid expenses and other current assets		(26)	(27)	(11)	(11)	(12)	(12)	(13)	(13)	(14)	(15)	(16)	(16)	(17)	(18)	(19)	(20)	(21)
Discontinued operations		200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reduction of liabilities		(675)	(675)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable		232	(207)	4	5	5	5	5	6	6	6	7	7	7	8	8	8	9
Accrued payroll, benefits and related costs		720	137	276	289	304	319	335	352	369	388	407	427	449	471	495	520	546
Net cash provided by (used in) operating activities		1,738	2,619	3,234	2,958	3,082	5,180	5,101	5,209	5,478	5,907	6,488	8,260	10,552	11,402	12,443	13,676	14,747
Investing activities:																		
Capital expenditures		(37)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)
Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) investing activities		(37)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)
Financing Activities:		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(85,938)
Increase (decrease) in cash position		1,701	2,599	3,213	2,938	3,061	5,159	5,080	5,188	5,457	5,886	6,467	8,239	10,532	11,382	12,423	13,655	(71,212)
Beginning cash position		1,894	3,595	6,193	9,406	12,344	15,405	20,564	25,644	30,832	36,289	42,175	48,642	56,881	67,413	78,794	91,217	104,872
Ending cash position	\$	3,595	\$ 6,193	\$ 9,406	\$12,344	\$15,405	\$20,564	\$25,644	\$30,832	\$36,289	\$ 42,175	\$ 48,642	\$ 56,881	\$ 67,413	\$ 78,794	\$ 91,217	\$104,872	\$ 33,661

**Novation Companies, Inc.**  
**Pro-forma Financial Statements**  
**(Reinstatement)**

**Balance Sheets**

<i>(in thousands)</i>	Year Ending December 31,																
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Cash	\$ 3,595	\$ 6,193	\$ 9,406	\$12,344	\$15,405	\$20,564	\$25,644	\$30,832	\$36,289	\$ 42,175	\$ 48,642	\$ 56,881	\$ 67,413	\$ 78,794	\$ 91,217	\$104,872	\$ 33,661
Accounts receivable	9,019	9,649	10,131	10,638	11,170	11,728	12,315	12,930	13,577	14,256	14,968	15,717	16,503	17,328	18,194	19,104	20,059
Other current assets	2,153	2,180	2,191	2,202	2,214	2,226	2,239	2,252	2,266	2,281	2,297	2,313	2,330	2,348	2,367	2,387	2,408
Total current assets	14,767	18,022	21,728	25,184	28,788	34,518	40,197	46,015	52,132	58,712	65,908	74,911	86,246	98,471	111,779	126,364	56,128
Non-current assets	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225
Total assets	<u>\$33,992</u>	<u>\$37,247</u>	<u>\$40,953</u>	<u>\$44,409</u>	<u>\$48,013</u>	<u>\$53,743</u>	<u>\$59,422</u>	<u>\$65,240</u>	<u>\$71,357</u>	<u>\$77,937</u>	<u>\$85,133</u>	<u>\$94,136</u>	<u>\$105,471</u>	<u>\$117,696</u>	<u>\$131,004</u>	<u>\$145,589</u>	<u>\$75,353</u>
Current liabilities	6,344	5,599	5,879	6,173	6,482	6,806	7,146	7,504	7,879	8,273	8,687	9,121	9,577	10,056	10,559	11,086	11,641
Long-term debt	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	85,938	0
Shareholders' equity	(58,290)	(54,290)	(50,864)	(47,702)	(44,406)	(39,001)	(33,662)	(28,202)	(22,459)	(16,273)	(9,491)	(922)	9,957	21,702	34,508	48,565	63,712
Total liabilities and shareholders' equity	<u>\$ 33,992</u>	<u>\$37,247</u>	<u>\$40,953</u>	<u>\$44,409</u>	<u>\$48,013</u>	<u>\$53,743</u>	<u>\$59,422</u>	<u>\$65,240</u>	<u>\$71,357</u>	<u>\$ 77,937</u>	<u>\$ 85,133</u>	<u>\$ 94,136</u>	<u>\$105,471</u>	<u>\$117,696</u>	<u>\$131,004</u>	<u>\$145,589</u>	<u>\$ 75,353</u>

**Novation Companies, Inc.**  
**Pro-forma Financial Statements**  
**(Alternative Noteholder Treatment)**

**Income Statements**

<i>(in thousands)</i>	Period from		Year Ending December 31,															
	Jul.1-Dec. 31,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Revenue	\$	36,125	\$ 70,436	\$ 73,958	\$ 77,656	\$ 81,539	\$ 85,616	\$ 89,896	\$ 94,391	\$ 99,111	\$ 104,066	\$ 109,270	\$ 114,733	\$ 120,470	\$ 126,493	\$ 132,818	\$ 139,459	\$ 146,432
Cost of revenue		31,248	60,959	64,007	67,208	70,568	74,096	77,801	81,691	85,776	90,065	94,568	99,296	104,261	109,474	114,948	120,695	126,730
Gross profit		4,877	9,477	9,951	10,448	10,971	11,519	12,095	12,700	13,335	14,002	14,702	15,437	16,209	17,019	17,870	18,764	19,702
Operating expenses		2,829	5,783	6,024	6,277	6,543	6,821	7,112	7,417	7,738	8,073	8,426	8,795	9,182	9,588	10,013	10,460	10,928
Income from operations		2,048	3,694	3,926	4,171	4,428	4,699	4,983	5,283	5,597	5,928	6,276	6,642	7,027	7,432	7,857	8,304	8,774
Discontinued operation asset write-off		(224)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income, mortgage securities		2,739	4,708	3,822	3,206	2,790	4,322	3,456	2,769	2,218	1,785	1,444	2,219	3,319	2,729	2,225	1,787	1,043
Investment income		391	1,045	1,671	2,393	3,128	3,919	4,969	6,064	7,228	8,484	9,854	11,361	13,130	15,223	17,505	20,006	22,755
Interest expense		(732)	(1,794)	(1,979)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)	(2,198)
Income before taxes		4,223	7,653	7,440	7,572	8,147	10,742	11,209	11,917	12,846	13,999	15,376	18,023	21,278	23,185	25,389	27,899	30,374
Taxes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	\$	4,223	\$ 7,653	\$ 7,440	\$ 7,572	\$ 8,147	\$ 10,742	\$ 11,209	\$ 11,917	\$ 12,846	\$ 13,999	\$ 15,376	\$ 18,023	\$ 21,278	\$ 23,185	\$ 25,389	\$ 27,899	\$ 30,374

**Statements of Cash Flows**

<i>(in thousands)</i>	Period from		Year Ending December 31,															
	Jul.1-Dec. 31,	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating activities:																		
Net income	\$	4,223	\$ 7,653	\$ 7,440	\$ 7,572	\$ 8,147	\$ 10,742	\$ 11,209	\$ 11,917	\$ 12,846	\$ 13,999	\$ 15,376	\$ 18,023	\$ 21,278	\$ 23,185	\$ 25,389	\$ 27,899	\$ 30,374
Depreciation & amortization		37	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Accounts receivable, net of allowance		(1,208)	(630)	(482)	(507)	(532)	(558)	(586)	(616)	(647)	(679)	(713)	(748)	(786)	(825)	(866)	(910)	(955)
Prepaid expenses and other current assets		(26)	(27)	(11)	(11)	(12)	(12)	(13)	(13)	(14)	(15)	(16)	(16)	(17)	(18)	(19)	(20)	(21)
Discontinued operations		200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reduction of liabilities		(675)	(675)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable		232	(207)	4	5	5	5	5	6	6	6	7	7	7	8	8	8	9
Accrued payroll, benefits and related costs		720	137	276	289	304	319	335	352	369	388	407	427	449	471	495	520	546
Net cash provided by (used in) operating activities		3,502	6,272	7,248	7,369	7,933	10,516	10,971	11,666	12,581	13,720	15,082	17,714	20,952	22,842	25,027	27,517	29,973
Investing activities:																		
Capital expenditures		(37)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)
Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) investing activities		(37)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)	(21)
Financing Activities:		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(87,938)
Increase (decrease) in cash position		3,465	6,251	7,227	7,348	7,913	10,496	10,950	11,646	12,560	13,699	15,062	17,693	20,931	22,821	25,006	27,497	(57,986)
Beginning cash position		6,989	10,454	16,705	23,932	31,280	39,193	49,688	60,639	72,284	84,844	98,544	113,605	131,298	152,229	175,050	200,057	227,553
Ending cash position	\$	10,454	\$ 16,705	\$ 23,932	\$ 31,280	\$ 39,193	\$ 49,688	\$ 60,639	\$ 72,284	\$ 84,844	\$ 98,544	\$ 113,605	\$ 131,298	\$ 152,229	\$ 175,050	\$ 200,057	\$ 227,553	\$ 169,567

**Novation Companies, Inc.**  
**Pro-forma Financial Statements**  
**(Alternative Noteholder Treatment)**

**Balance Sheets**

<i>(in thousands)</i>	Year Ending December 31,																
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Cash	\$ 10,454	\$ 16,705	\$ 23,932	\$ 31,280	\$ 39,193	\$ 49,688	\$ 60,639	\$ 72,284	\$ 84,844	\$ 98,544	\$ 113,605	\$ 131,298	\$ 152,229	\$ 175,050	\$ 200,057	\$ 227,553	\$ 169,567
Accounts receivable	9,019	9,649	10,131	10,638	11,170	11,728	12,315	12,930	13,577	14,256	14,968	15,717	16,503	17,328	18,194	19,104	20,059
Other current assets	2,153	2,180	2,191	2,202	2,214	2,226	2,239	2,252	2,266	2,281	2,297	2,313	2,330	2,348	2,367	2,387	2,408
Total current assets	21,626	28,534	36,254	44,120	52,576	63,642	75,192	87,467	100,688	115,081	130,871	149,328	171,063	194,727	220,618	249,045	192,035
Non-current assets	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225	19,225
Total assets	\$40,851	\$47,759	\$55,479	\$63,345	\$71,801	\$82,867	\$94,417	\$106,692	\$119,912	\$134,306	\$150,096	\$168,553	\$190,288	\$213,952	\$239,843	\$268,270	\$211,260
Current liabilities	6,344	5,599	5,879	6,173	6,482	6,806	7,146	7,504	7,879	8,273	8,687	9,121	9,577	10,056	10,559	11,086	11,641
Long-term debt	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	87,938	-
Shareholders' equity	(53,431)	(45,778)	(38,338)	(30,766)	(22,619)	(11,877)	(668)	11,250	24,095	38,095	53,471	71,494	92,772	115,958	141,347	169,245	199,619
Total liabilities and shareholders' equity	\$ 40,851	\$47,759	\$55,479	\$63,345	\$71,801	\$82,867	\$94,417	\$106,692	\$119,912	\$134,306	\$150,096	\$168,553	\$190,288	\$213,952	\$239,843	\$268,270	\$211,260

**Novation Companies, Inc.**  
**Pro-forma Financial Statements**  
**Assumptions**

**Income Statement**

- a. *Revenue*: Fiscal year 2017 revenue projections were based on a detailed bottoms-up analysis of HCS. For the remaining projection period, an annual growth rate of 5% was assumed.
- b. *Cost of Revenue*: Cost of revenue in fiscal year 2017 is based on a detailed bottoms-up analysis of the business. For the remaining forecast period, cost of revenue as a percentage of revenues is projected to remain flat at 86.5%.
- c. *Operating Expenses*: Fiscal year 2017 projections for operating expenses associated with HCS were based on a detailed bottoms-up analysis of the business and were consistent with 2016 performance. For the remaining forecast period, we projected operating expenses at HCS would stay flat at 6.5% of revenues.
- d. *Interest Income, Mortgage Securities*: Interest income from mortgage securities consists of earnings from legacy mortgage securities owned by Novation Companies, Inc and NovaStar Mortgage LLC. The income was projected using a bottoms-up approach and based on expected performance of the underlying mortgage loan collateral separately for each securitization pool.
- e. *Investment Income*: Investment income includes earnings on excess cash flow and is projected at an annualized rate of return of 10%.
- f. *Interest expense*: Interest expense has been forecasted using two separate assumptions:
  - 1. for the full restatement of the Senior Notes, interest is projected at a rate of 3 month Libor plus 3.5%.
  - 2. for the Amended Senior Notes scenario, the interest rate is forecasted at the federal judgment rate (1-year constant maturity treasury).
- g. *Income Tax Expense*: The projections assume that Novation will not be paying income taxes throughout the projections period.

**Balance Sheet**

The Projected Consolidated Balance Sheets set forth the projected consolidated financial position of the Company, after giving effect to the Proposed Restructuring and the acquisition of HCS.

The Opening balance sheet also includes the debt and other obligations that will continue to remain outstanding throughout the projection period. The projected cash balance includes the effects of anticipated changes in working capital related items.

- a. *Accounts Receivable*: Accounts receivable balances are based on 50 days sales outstanding throughout the projection period.
- b. *Non Current Assets*: Non-current assets include primarily goodwill and other intangibles and are not expected to change throughout the projection period.
- c. *Current Liabilities*: Current liabilities include primarily accrued payroll and benefits at HCS and assume 33 days payable throughout the projection period.